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UNCLAS ROME 002867

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FROM THE US MISSION TO THE UN AGENCIES IN ROME

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E.O. 12958: N/A

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SUBJECT: WORLD FOOD PROGRAM CONSIDERS INSURANCE-BASED  
SYSTEM FOR FINANCING EMERGENCY ASSISTANCE

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SUMMARY  
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1. WFP convened an informal briefing at its headquarters on the topic of hunger insurance on July 13. The purpose of the briefing was to gauge donor sentiment towards the idea of funding such insurance through premiums in an effort to shift risks associated with natural disasters away from crisis-affected families and onto humanitarian agencies and their donors. Although the briefing produced more questions than answers, it left WFP officials with a better sense of the wide range of uncertainties from the donor community. End Summary.

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BACKGROUND  
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2. As per WFP, over 60 percent of assets in the developed world are insured; in developing countries less than 2 percent of assets are insured. Uninsured asset loss traps entire populations in a vicious cycle of deepening, long-term destitution. WFP is keen to explore with donors and the private insurance sector how to build an effective insurance-based system for financing emergency assistance. WFP commented that, in sub-Saharan Africa at present, about 130 million people are at risk of acute hunger (due to drought and flood and other natural causes) and that this population needs to be insured.

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BRIEFING ON HUNGER INSURANCE THE ADVANTAGES  
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3. WFP convened an informal hunger insurance briefing for Rome-based permanent representatives at its headquarters on July 13. WFP Special Projects Manager, Richard Wilcox, and World Bank Senior Economist, Ulrich Hess, lead the briefing. Sixty-five representatives were in attendance.

4. WFP identified advantages for donors, beneficiaries and the organization itself under the insurance proposal. They included:

A. In terms of donors, WFP reported that the initiative would facilitate expenditure smoothing for budgeting and planning, not disrupt other aid programs to fund emergencies, and generate timely cash contributions when needed regardless of budget cycles.

B. Beneficiaries could expect greater dignity (i.e., does not rely on beneficiary misery during the emergency to appeal for charitable funds), timely aid, cash aid when appropriate, and an incentive to mitigate against risks through co-payments.

C. WFP would benefit by having timely availability of cash, greater objectivity and rigor on needs assessments, a reliable source of cash regardless of political circumstances, and the use of premium payments to fund emergency preparedness.

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CHALLENGES  
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5. WFP acknowledged that the hunger insurance concept was not without its challenges. Specifically, WFP raised questions regarding the index and financial designs. For example, can WFP design indices that are reliable, accurate and insurable? Also, can WFP design insurance contracts with feasible premiums, incentives and payout structures to protect vulnerable people?

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World Bank experiences to date  
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16. As per Ulrich Hess, the World Bank conducted Risk Management feasibility studies during 2000 in Morocco, Nicaragua, Tunisia and Ethiopia. In 2002, the Bank's International Finance Corporation (IFC) Board approved a project for Morocco entitled: "SGRI - Societe de Gestion du Risque Intemperies" (Weather Risk Management Company) and a second project entitled "Global Weather Risk Facility" (GWRF) which aimed at providing weather risk reinsurance capacity support. The Moroccan weather risk insurance company did not materialize in the end because declining rainfall levels led to relatively high premiums for the semi-arid areas, and Government of Morocco signaled it would subsidize the premiums. But, this public subsidy element did not come through, so the weather insurance did not materialize either. At present, the World Bank has in place a Commodity Risk Management Group (CRMG) which has provided technical assistance for transactions in Mexico and India (2003 and 2004) and is currently assisting transaction preparation in Ukraine, South Africa, Malawi, Peru, Zambia and India. These efforts are primarily targeted at producers but set precedents for insuring vulnerable agricultural populations.

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THE ROAD AHEAD  
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17. WFP will take what it learned during the briefing back to its hunger insurance steering committee, which is scheduled to meet in early September. The WFP Executive Board will be briefed on the issue during the upcoming Third Regular Session of the Executive Board, October 11-14, 2004.

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Comment  
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18. The meeting did not get into the tough issue - cost, as anyone in the U.S. who owns any hurricane-exposed beachfront property knows all too well when you want to buy a hazard insurance policy. The World Bank "trial balloons" need to be closely tracked. In short, "hunger insurance" is a creative, daring idea that should be fully explored. Hall

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2004ROME02867 - Classification: UNCLASSIFIED